

Fiscal Note

Fiscal Services Division



HF 634 – 2013 Iowa Department of Revenue Policy Bill (LSB 1285HV)
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Fiscal Note Version – New

Description

House File 634 relates to the policy administration of the tax and related laws of the Department of Revenue, including the administration of income taxes, sales and use taxes, the wind-up and eventual repeal of the Iowa Fund of Funds program, a study report related to the current administrative appeals process for tax matters, and the possible creation of a new Tax Appeal Board.

Provisions of this Bill with a potential fiscal impact on state and local revenue include:

S-Corporation Apportionment (sections 4 & 5): Amends allocation of income provisions related to S-Corporation income apportionment. An estate or trust that is a shareholder in an S-Corporation is made eligible to claim the S-Corporation Apportionment Tax Credit. This change is effective retroactive to January 1, 2013.

Silviculture Sales Tax Exemption (sections 12 & 18): Adds silvicultural activities to the list of agricultural production activities exempt from the sales and use tax. Silviculture relates to forest and woodland management.

Private Security by Peace Officers Sales Tax Exemption (section 13): Exempts private security and detective services from the sales and use tax, if the service is provided by a peace officer.

Consumables in Manufacturing (sections 14, 15, and 17): Modifies the definitions of “consumable” supplies and “replacement part,” while the sales and use tax exemption is amended to include consumable supplies.

Definition of Manufacturer (Section 16): Modifies the definition of manufacturer to specify that manufacturer means a person that adds to the value of personal property through a manufacturing process. This provision codifies a recent Iowa Supreme Court ruling. Codifying the ruling will allow parties to receive the exemption at the time of purchase and not have to file refund requests.

Assumptions

S-Corporation Apportionment: The Department of Revenue reviewed a sample of fiduciary returns filed by shareholders of S-Corporations and the tax impact of extending the apportionment credit to these returns, less any Out-of-State Tax Credit they will no longer be allowed to claim, was estimated. The sample was assumed to be representative of all impacted estate and trust returns.

Silviculture Sales Tax Exemption: The amount of silviculture activity within Iowa that is currently subject to state and local sales taxes is not known. For this estimate, silviculture services are assumed to be minimal and/or already treated as an exempt service.

Private Security by Peace Officers Sales Tax Exemption:

- According to the U.S. Census American Community Survey, there are 9,246 law enforcement officers in Iowa (2011 data).
- Assume 5.0% of Iowa law enforcement officers provide security and detective services for private entities while off-duty, for an average of 4 hours per week at an average hourly rate of \$40.00.

Consumables in Manufacturing: The Department of Revenue utilized two methods for estimating the impact of the proposed changes. The first method involved a Department survey of manufacturers to determine how the tax change proposal would impact their specific manufacturing process. The second method involved a review by the Department of recent sales and use tax protests by manufacturers where the tax protest involved manufacturing consumables. The two methods provided widely different estimates of the impact of the proposed change, with one method estimating an annual tax revenue reduction of \$25.9 million and the other method estimating a reduction of \$69.8 million. This Fiscal Note assumes an impact equal to 50.0% of the higher estimate.

Definition of Manufacturer: The Department of Revenue reviewed sales and use tax returns and refund claims from convenience stores, restaurants, and other retail establishments such as grocery stores, pharmacies, hardware stores, and others to provide the data for an estimate of the impact of the change in definition. The Department estimate of the fiscal impact of this provision is based on an assumption that one-half of the entities impacted by a recent Supreme Court decision related to the manufacturing exemption definition will not file refund claims due to the small nature of the issue to many impacted entities.

Fiscal Impacts

The state sales tax rate is 6.0%. However, one-sixth of the tax is passed directly to local school districts for school infrastructure finance, so that one-sixth is regarded as a local option tax in the fiscal impact analysis. There is also a 1.0% local option sales tax for local government finance, and the impact on that revenue is also reported in the following table as a local option impact. The impact on State General Fund revenue, as well as revenue to schools and other local governments, is provided in the following table.

Estimated State General Fund Impact in Millions of Dollars

	FY 2014	FY 2015	FY 2016	FY 2017
S-Corporation Apportionment	\$ -0.2	\$ -0.2	\$ -0.2	\$ -0.2
Silviculture Sales Tax	0.0	0.0	0.0	0.0
Private Security Sales Tax	-0.2	-0.3	-0.3	-0.3
Manufacturing Consumables	-29.1	-30.1	-31.3	-32.1
Manufacturer Definition	-7.3	-7.6	-7.8	-8.1
State General Fund Impact	\$ -36.8	\$ -38.2	\$ -39.6	\$ -40.7

Estimated Local Government Impact in Millions of Dollars

	FY 2014	FY 2015	FY 2016	FY 2017
Silviculture Sales Tax	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Private Security Sales Tax	0.0	-0.1	-0.1	-0.1
Manufacturing Consumables	-10.9	-11.2	-11.7	-12.0
Manufacturer Definition	-2.8	-2.8	-3.0	-3.0
Local Government Impact	\$ -13.7	\$ -14.1	\$ -14.8	\$ -15.1

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
